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PAGE 14

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Creditors investigate million-dollar deals by Rose

By TOM GRESS

Attorneys for creditors of Martha C. Rose Chemicals Co., a bankrupt Kansas City hazardous waste company, are trying to determine whether the firm concealed some of its assets in a series of multimillion-dollar transactions between Rose and another company owned by a Rose principal.

The transactions involved payments by Rose with overhead markups of up to 175 percent for labor performed by American Steel Works during a period between March 1982 and February 1986, according to court testimony and a congressional investigation this summer of Rose Chemicals' finances.

In a petition filed in U.S. Bankruptcy Court in Kansas City, the creditors' attorneys said the transactions "may reveal assets and/or the concealment and dis-

posal of assets" that could be used to pay for the cleanup of a Holden, Mo., site where Rose stored PCBs. If Rose does not have the money to pay for the cleanup, those creditors and other companies that relied on Rose for waste disposal may have to pay the bill.

Walter Carolan Jr. is the majority owner of Rose and the sole owner of American Steel Works. Carolan said during an Oct. 10 court hearing that the transactions were legitimate and covered the costs of work done for Rose by American Steel Works.

The testimony comes in the early stages of involuntary bankruptcy proceedings taken against Rose Chemicals by Southwestern Electric Power Co., The Kansas Power and Light Co., Central Louisiana Electric Co. and Illinois Power Co.

Although the companies paid Rose

Chemicals to dispose of their PCB wastes, they are being considered creditors in the case because Rose Chemicals allegedly did not complete the work.

The companies forced the bankruptcy proceedings after the Environmental Protection Agency shut down Rose's operations in Holden, Mo. The Holden plant, where Rose stored the chemicals, is now undergoing an extensive cleanup that is expected to cost at least \$10 million.

Carolan has said that Rose Chemicals has only a few assets and could not pay for any part of the cleanup. If the bankruptcy proceedings determine that Rose is insolvent, then more than 600 companies and municipalities that generated PCBs and paid Rose to dispose of the chemical could be financially responsible for the cleanup.

Kansas City attorneys William Beck and

Douglas Ghertner, who represent the four creditors, declined to comment on the bankruptcy proceedings. But in the creditors' hearing Oct. 10 in bankruptcy court, Beck questioned Carolan extensively about apparent interrelationships between Rose and American Steel Works, and about the payments to American Steel Works.

During the questioning, Carolan said that most of Rose's work had been done by American Steel Works employees, and that the two companies had shared space at a building at 2459 Charlotte St. and at the Holden site.

He also said that both companies shared such things as office equipment and telephone lines during the time Rose Chemicals was in business.

During a period from 1982 to 1984, according to testimony during the hearing, Rose Chemicals paid at least \$3.6 million to American Steel Works for labor costs. Substantial payments were also made in 1985 and earlier this year, although the sums were not disclosed.

Those payments included markups of as much as 175 percent for engineering and shop labor overhead. Most materials Rose Chemicals bought from American Steel Works were billed at cost plus 25 percent for general overhead.



88849

SUPERFUND RECORDS

1 of 2

If the bankruptcy proceedings determine that Rose is insolvent, then more than 600 companies and municipalities that generated PCBs and paid Rose to dispose of the chemical could be financially responsible for the cleanup.

For example, according to court testimony, Rose paid American Steel Works more than \$26,000 in November 1985 for work that had cost \$9,800.

Carolyn maintained during the hearings that no profit was made in the markups and that the transactions were proper.

"I think you will see that the markups fit the general cost for a factory employee," Carolyn said. "There was no other money left after covering costs."

Others, however, have questioned how no profit could be built into the markups. Terry Tillotson, an auditor for the U.S. General Accounting Office who conducted a investigation of Rose this summer for a congressional subcommittee on the environment, said the practice appeared to be unusual.

Tillotson, however, said that not all of Rose's or American Steel Works' records were available when he conducted the investigation.

Carolyn also said during the testimony that he did not know why many of Rose Chemicals' checks to American Steel Works did not match invoices for the work done. The congressional investigation showed that at the end of fiscal year 1984, Rose's payments to American Steel Works were more than the total amounts billed for labor, materials and overhead.

PCBs, polychlorinated biphenyls, are chemicals that were formerly used for insulation in electrical capacitors and transformers. They are suspected of causing liver and skin disorders, and some believe they also may cause cancer. Congress in 1976 outlawed manufacturing the chemicals in the United States.